

## **Career Status Bonus (CSB) and Related Retired Pay Reforms Implementing Guidance**

**GENERAL:** The National Defense Authorization Act for Fiscal Year 2000 significantly changed the retired pay system for those members of a Uniformed Service who first became members on or after August 1, 1986. (See Public Law 106-65, October 5, 1999, sections 641 through 644.) As of October 1, 1999, they are under the High-3 retired pay system. Previously, they were covered by the REDUX retired pay system. However, these members may now elect, upon completion of 15 years of active duty in the Uniformed Services, to receive a \$30,000 career status bonus (CSB), in which case they will again be under the REDUX retired pay system. This implementing guidance establishes uniform procedures to:

- (1) Identify members eligible to make a CSB/REDUX election,
- (2) Notify potentially affected members concerning the implications of CSB/REDUX elections, including the effect an election would have on retired pay, and
- (3) Administer CSB/REDUX elections, make payments, and recover associated debts.

**EFFECTIVE DATE:** The statutory changes were effective October 1, 1999. Notwithstanding, no member can attain eligibility to make a CSB/REDUX election before August 1, 2001.

**ELIGIBLE MEMBERS:** A member of a Uniformed Service is eligible to make a CSB/REDUX election only if the member:

- (1) Is serving on active duty, and
- (2) First became a member of a Uniformed Service on or after August 1, 1986; i.e., has a Date of Initial Entry to Military/Uniformed Service (DIEMS or DIEUS) of Aug 1, 1986 or later, and
- (3) Completes 15 years of active duty in the Uniformed Services, and
- (4) Is otherwise eligible, as determined by the Service Secretary concerned, to continue on active duty until the completion of 20 years of active duty service.

All these eligibility criteria must be satisfied at the time the member completes 15 years of active duty. A member who does not meet all criteria at that time but subsequently does, may not then be given the opportunity to make a CSB/REDUX election, unless the member falls within exceptions established in guidance promulgated by the Service Secretary concerned.

**CSB/REDUX NOTIFICATION:** The Secretary concerned shall notify all members with a DIEMS of August 1, 1986, or later of whether or not they are eligible to make a CSB/REDUX election. The notice should be sent on or shortly before the date those members complete 14

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Attachment 1

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years and 6 months of active duty. If a member is not notified in a timely manner as required above, the Secretary concerned shall notify such member at the earliest possible opportunity. Thus, the required notification of the first members potentially affected by this statutory change should be sent around February 1, 2001. Accordingly, the Secretaries concerned should have procedures and resources in place to support the notification process (and to assist eligible members in the CSB/REDUX election decision making process) at this time.

If a member is not eligible, the notification must explain why not, and must inform the member whether, under exceptions established in guidance promulgated by the Secretary concerned, there will be an opportunity to make a CSB/REDUX election in the future, if the impediment to eligibility is subsequently eliminated. The Secretary concerned must promptly notify a member who subsequently becomes eligible.

If a member is eligible, the notice must include an explanation that if the member makes a CSB/REDUX election:

- (1) The election may not be revoked once it is effective.
- (2) The member must agree to remain on continuous active duty until the completion of 20 years of active duty.
- (3) The member will receive a one-time, lump-sum payment of \$30,000, a portion of which may qualify for deposit in the Thrift Savings Plan (TSP) if the member is a participant.
- (4) A proportionate share of the CSB must be repaid if the member fails to complete 20 years of active duty service, unless the Secretary concerned waives repayment.
- (5) The member's retired pay for length of service will be computed (other than a length of service computation for disability retirement) under the REDUX retired pay system, rather than the High-3 retired pay system. This includes a reduction in annual Cost-of-Living Adjustments (COLAs) under 10 U.S.C. 1401a (with a one-time adjustment at age 62 under 10 U.S.C. 1410) and a reduction in multiplier under 10 U.S.C. 1409 (readjusted at age 62 under 10 U.S.C. 1410).
- (6) The election will affect potential SBP premiums and annuities.

The notice must explain the specific procedures for making an election, including instructions for completing and submitting required forms, and information concerning whether counseling is required (and any requirement to formally acknowledge receipt of such counseling) or is available on a voluntary basis. The DoD Standard Fact Sheet of Information for Eligible Career Status Bonus Members must be included or incorporated as part of the notice and may be supplemented by additional Service materials. The member will be provided information on the Thrift Savings Plan (TSP) and how to deposit any qualified portion of CSB in the TSP.

**ELECTION:** To make a CSB/REDUX election, a member must submit the CSB/REDUX election form (DD form or service-prescribed replacement form that incorporates the contents of the DD form) and any other Service required forms as directed in the eligibility notification no later than the date that is 6 months after the eligibility notification is sent, or no later than the date the member has served on active duty for 15 years if that is a later date. An election at any other time is ineffective. The CSB/REDUX election effective date is the date on which an election otherwise valid becomes irrevocable as follows:

An election is considered to be received by the Secretary concerned on, and is not considered to be effective until, the date the member has served on active duty for 15 years. Before that date, the member may withdraw the election. On that date, the election becomes irrevocable.

When a member's eligibility notification is sent at any time after the date that is 6 months before the member's completion of 15 years of active duty, the member's election is effective on the date that it is received by the Secretary concerned, or on the date the member has served on active duty for 15 years if that is a later date. Before that date, the member may withdraw the election. On that date, the election becomes irrevocable.

**CAREER STATUS BONUS (CSB):** The Secretary concerned shall pay a lump sum \$30,000 CSB to an eligible member who makes a valid CSB/REDUX election. The CSB must be paid no later than the first month that begins on or after the date that is 60 days after the date the election is effective.

**Example:** A member who will attain 15 years of active duty service on October 10, 2001, should be sent the CSB/REDUX notification no later than April 10, 2001. The member may complete the necessary forms and return them as directed by the Service concerned, but the election is not effective until October 10, 2001. The Secretary concerned must pay the member the \$30,000 in one lump-sum payment no earlier than October 10, 2001, and no later than January 31, 2002. The latter date is determined as follows: the date that is 60 days after the receipt of the election is December 9, 2001, so the first month that begins on or after that date is January 2002 -- the member must be paid no later than the end of January 2002.

**SOURCE OF FUNDS FOR BONUS PAYMENTS:** The CSB must be paid from funds appropriated for pay and allowances of the recipient's Service.

**REPAYMENT OF BONUS:** A CSB recipient who fails to serve continuously on active duty until the completion of 20 years of active duty must repay an amount calculated by multiplying \$30,000 by a factor that is determined by dividing the uncompleted period of active duty by the total period of continuous active duty required as a result of the CSB/REDUX election. In making the calculation, months and days must be expressed as decimal fractions of a year (to the nearest .00000001). Each month is 1/12<sup>th</sup> of a year and each day is 1/360<sup>th</sup> of a year, rounded to the eighth decimal place. (See the table of fractional parts of a year at Attachment 1-1.) In determining these periods, compute years, then months and then days counting from the day after the last day of continuous active duty.

**Example 1:** A member's CSB/REDUX election is effective upon attaining 15 years of active service on October 10, 2001. The member is obligated to serve through October 10, 2006 (5 full years). If the member's last day of active duty is December 31, 2002, the member will have failed to complete 3 years, 9 months and 10 days of required service. The member's repayment is computed as follows:

The period of agreed additional service is: 5 full years

The service not completed is: 3 years, 9 months, and 10 days, or  
 $3 + .75 + .02777778 = 3.77777778$  years

The required repayment is:

$(3.77777778 / 5) \times \$30,000 = .75555556 \times \$30,000 = \$22,666.67$

**Example 2:** A member not initially notified of eligibility for a CSB, was later notified and made a CSB/REDUX election that was effective upon attainment of 16 years, 6 months, and 23 days of service. The member thus agreed to complete an additional 3 years, 5 months, and 7 days of service, but later separated, failing to complete 2 years, 3 months, and 11 days of that time. This member's repayment is computed as follows:

The period of agreed additional service is:

$3 + .41666667 + .01944444 = 3.43611111$  years

And the service not completed is:

$2 + .25 + .03055556 = 2.28055556$  years

The required repayment is:

$(2.28055556 / 3.43611111) \times \$30,000 = .66370251 \times \$30,000 = \$19,911.08$

An obligation to repay a portion of the CSB is a debt owed to the United States unless the debt is waived under provisions below. A discharge in bankruptcy under title 11, United States Code, that is entered within 5 years after the member's separation does not include a debt arising from a CSB repayment obligation.

**WAIVER OF BONUS REPAYMENT:** The Secretary concerned may waive, in whole or in part, the required CSB refund if the Secretary determines that recovery would be against equity and good conscience or contrary to the best interests of the United States. The Secretary concerned shall waive the required refund if the member:

- (1) Dies, or
- (2) Is separated or retired as a result of a physical disability under chapter 61 of title 10, United States Code, or
- (3) Is separated under a Service offer for early retirement (such as TERA) or separation program.

The Secretary concerned shall not waive repayment if the member's separation is due to misconduct or if waiver of repayment would be inconsistent with other prescribed law, regulation, or policy.

**TAX CONSIDERATIONS:** The Defense Finance and Accounting Service (DFAS) shall advise bonus recipients of the taxability of CSB payments in consultation with the Armed Forces Tax Council. The CSB is generally subject to the same tax considerations as any other bonus payment. The CSB, if taxable, is income as of the date on which the payment is actually made to the member. Provided a member is a TSP participant, a member may contribute any amount of CSB allowable under the provisions of the Thrift Savings Plan (TSP) of section 211, title 37, United States Code, as applicable at the time of payment. Ordinarily, the annual limit of all TSP contributions, including any from the CSB, in 2000 would be \$10,500, with adjustments in later years.

**Tax Exclusion:** If the member is otherwise eligible for a combat zone or Qualified Hazardous Duty Area (QHDA) tax exclusion on the effective date of the CSB/REDUX election (see ELECTION section), the CSB, within allowable limits, will not be considered taxable income to the member. A member may contribute to the TSP any nontaxable pay of up to \$30,000 or 25 percent of compensation, whichever is less.

**FORMER SPOUSE CONSIDERATIONS:** The CSB is an active duty bonus under the provisions of title 37, United States Code. It is not military retired pay and, therefore, is not subject to division under the Uniformed Services Former Spouses' Protection Act.

**RESPONSIBILITIES:** Responsibilities to facilitate the implementation and administration of the CSB and related retired pay reforms are prescribed as follows:

**DIRECTOR OF COMPENSATION, MILITARY PERSONNEL POLICY, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (FORCE MANAGEMENT POLICY):**

The Director of Compensation shall serve as the central point of contact among all agencies that have implementation responsibilities and shall coordinate resolution of any policy issues that might prevent timely or accurate payment of the CSB. The Director shall notify the Services of the formats required for any reports or information required to be submitted to DoD by the Services. The Director shall maintain a website containing information to assist members in the CSB/REDUX election decision making process. The Director shall coordinate with the Services to make available a Fact Sheet of Information for Eligible Career Status Bonus Members, which the Services shall provide to members as required by this guidance. The Director shall coordinate with the Services in developing and publishing a DoD form for administration of CSB/REDUX notifications, declinations, elections, and payments.

**DIRECTOR FOR DEFENSE INFORMATION, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (PUBLIC AFFAIRS):**

The Director for Defense Information shall assist the Services in publishing information to members of the Uniformed Services concerning the effects of a CSB/REDUX election. The Director shall oversee any media plan for publicizing that information. The Director shall ensure adequate facilities for hosting the website providing information to assist members in the CSB/REDUX election process.

**DEFENSE MANPOWER DATA CENTER (DMDC):**

DMDC shall collect CSB/REDUX eligibility (including DIEMS data), election, and payment data from the Services and DFAS. Standard formats for such data shall be established in DoD Instructions. Data collected shall include a CSB/REDUX eligibility notification date, a CSB/REDUX election effective date, and data to identify those who subsequently fail to complete the service required (including the date of early separation).

**DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS):**

DFAS shall coordinate with the Military Services to effect payment of the CSB to members making a valid CSB/REDUX election and shall cause any subsequent retired pay to be computed accordingly. DFAS shall report CSB payments to DMDC for inclusion in their databases.

**DFAS shall develop and implement the accounting policies and procedures needed to make CSB payments and determine and recover any debt arising out of a member's failure to complete the required active duty.**

**DFAS shall publish members' DIEMS on their Leave and Earnings Statements (LES) along with a block indicating the retired pay system applicable (Final Pay, High-3, or REDUX as appropriate). The LES for members with a DIEMS of August 1, 1986 or later will show the word Choice until converted to the High-3 system after 15 years of active duty unless and until they make a CSB/REDUX election, at which time REDUX shall be indicated.**

#### **MILITARY SERVICES:**

**Each Service shall collect and report CSB/REDUX eligibility (including DIEMS data), election, and payment data to DMDC in DoD standard format. Such data collection and reporting shall be established in DoD Instructions. Data collected shall include a CSB/REDUX eligibility notification date, a CSB/REDUX election effective date, and data to identify those who subsequently fail to complete the service required (including the date of early separation).**

**Each Service must assist the OSD Director of Compensation in maintaining the CSB/REDUX website.**

**Each Service must establish procedures to identify potentially eligible members and to notify them in accordance with the requirements established in this guidance. Notifications shall include the Fact Sheet of Information for Eligible Career Status Bonus Members provided by the ODASD(MPP) Director of Compensation.**

**Each Service shall provide the ASD(FMP) a copy of any policies pertaining to the CSB/REDUX program.**